TERMSHEET
WOOLGATE EXCHANGE

Loaning to own

Woolgate Exchange enjoys a premium location in London

TPG manoeuvred itself into a position to acquire trophy asset Woolgate Exchange by buying up the junior debt of the distressed asset before negotiating with other lenders, a risky but ultimately successful strategy, writes **Magda Ali**

TERMSHEET

Woolgate Exchange, one of the City of London's trophy buildings in the heart of the Square Mile, rises to eight storeys and covers 351,000 square feet. It's enjoyed mixed fortunes however since Irish property group D2 Private acquired the building in 2006 from Hamburg-based investment bank Bankhaus Woelbern.

Through a maze of failed sales, distressed debt investments and complex negotiations, US firm TPG and Ivanhoé Cambridge emerged earlier this year holding the keys.

THE BACKGROUND

Back in 2006, property investor D2 Private acquired Woolgate Exchange in a £325 million deal, underpinned by £272 million of debt financing provided by Anglo Irish Bank. AIB retained a £32m B-note post-completion, and then syndicated a £240m senior loan to Credit Suisse. The Swiss bank then packaged that senior loan as the 'Cornerstone Titan CMBS'.

That senior loan held by Credit Suisse was priced at 92 basis points over LIBOR, which after interest rate swaps took the all-in cost of the securitised debt to 5.75 percent.

However, with the onset of the financial crisis, D2 struggled to make interest payments on the loans. Worse, the property's value collapsed from £333 million in July 2006 to £255 million in September 2010. By July 2011, the loans that had been used to underpin D2's acquisition of Woolgate had matured and the firm found itself unable to repay the outstanding balance of £272 million. AIB, which held the junior loan, by this stage had been merged with Irish Nationwide Building Society to form Irish Bank Resolution Corporation (IRBC).

The building therefore sat within a defaulted capital structure, the keys effectively held by IRBC and the CMBS holders (via Credit Suisse).

Knight Frank and Jones Lang LaSalle were brought in to market the property, which had been given a £290 million price tag. Potential acquirers included Brookfield Office Properties, The Blackstone Group and Oxford Properties, as well as at least one listed property company, sources said. No deal could be reached however.

In March last year, a potential buyer emerged. Malaysian fund manager Permodalan Nasional Berhad reportedly tabled a £265 million offer, but the deal is understood to have collapsed after PNB raised concerns over the lease to Woolgate Exchange held by WestLB.

ENTER TPG

Four months later, Wells Fargo-owned advisory boutique Eastdil Secured was mandated to sell the B-note which due to unpaid accrued interest had risen to £40 million. Hedge fund Cheyne Capital Management, one of the CMBS' principal bondholders, approached US private equity group TPG. The plan was for TPG to buy into the capital structure through the junior debt. It needed, however, a senior partner in the deal.

TPG found one in Ivanhoé Cambridge. The real estate arm of Canadian pension fund Caisse de dépôt et placement du Québec agreed to come in alongside TPG, which although "leading" the £265 million deal, was financially the junior partner. Ivanhoé financed the acquisition with a £160 million, five year senior loan provided by MetLife and priced at between 275 and 300 bps (and a loan-to-value ratio of 60 percent). The remainder of the purchase price was made up with equity.

The deal meant the junior loan (held by TPG) was partially repaid, while the entire senior portion of the asset's capital structure (the CMBS) was fully paid off, a statement confirmed. Competition to back the TPG / Ivanhoé acquisition was understood to have been fierce, with terms sheets from the likes of Goldman Sachs, Heleba, LBBW, Wells Fargo and Santander ranging from 45 to 77 percent LTV.

Using debt as a means to acquire a business ('loan-to-own') is not a particularly unusual approach of course. "Where the asset is already in administration or receivership the risk of not being able to initiate an enforcement process is mitigated somewhat," argues Ruth Harris, a real estate finance lawyer at Ashurst. "When that asset is real estate, the risk of deterioration in value whilst in a process is also reduced, compared to a trading business," she adds.

Buying the debt gives an enhanced position compared to other bidders for the company by virtue of the information rights attached to debt-holders, and also by way of duties owed to them by a receiver or administrator, according to Harris. "They can even circumvent a full marketing process if there is sufficient margin between the secured debt and the market value, and thereby speed up the process."

Nassar Hussain, managing partner at Real Estate investment firm Brookland Partners, believes deals like this one will grow in popularity.

"We see an increasing number of real estate investors acquiring junior debt in order to participate in a restructuring, refinancing or as part of a strategy to take control of the underlying assets," he tells *Private Debt Investor*. "These structured acquisitions allow such investors to participate discretely and in a less competitive process when compared to an open market sale of the assets on enforcement."

What did TPG get out of the transaction, given sources indicated its stake equates to only 3.5 percent? Kelvin Davis, a partner at TPG, said in a statement at the time of the deal: "It highlights our ability to source and execute quality property investments through complex CMBS restructurings. We believe there will be a number of other similar opportunities throughout Europe in the years ahead."

Market sources agree that to some sponsors the attraction to deals such as Woolgate may well be not so much about the financial rewards on offer, but an opportunity to develop a reputation for being able to master complexity. "A lot of these new asset managers, like TPG [in the real estate space], are looking to execute deals like this, just so that they can look credible," a New-York based lawyer said. "They probably don't have the balance sheets to make substantial investments in the assets they acquire, but the fact that they led the acquisition works in their favour."

There are likely to be plenty more distressed property transactions in the next 12 to 24 months, and with Woolgate Exchange, TPG and Ivanhoé have certainly laid down a marker. ■

WOOLGATE EXCHANGE TIMELINE

2006 - D2 Private acquires Woolgate Exchange for £325 million. AIB underwrites the deal and syndicates senior loan to Credit Suisse, which then packages it as a CMBS.

July 2011 - D2 unable to repay the outstanding loan balance of £272 million at maturity.

October 2011 - Capita Asset Services enlists Knight Frank and Jones Lang LaSalle to market the property with a £290 million guide price.

March 2012 - Permodalan Nasional Berhad tables a £265 million offer, but the deal collapses.

July 2012 - IBRC (formerly AIB) hires Eastdil Secured to find a buyer for the B-note. CMBS bondholder Cheyne Capital Management approaches TPG to partner as a buyer of the B-note and outstanding CMBS debt of £223 million to secure ownership of the building.

Dec 2012 - TPG / Ivanhoé acquire Woolgate Exchange in a £265 million deal.